Newfoundland
Labrador

Department of Finance

Government Money Purchase Pension Plan Committee

2011 Activity Report

June 2012

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Government Money Purchase Pension Plan
Administration Committee
P.O. Box 8700
St. John's, NL
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Honourable Thomas W. Marshall, Q.C.
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL A1B 4J6

Dear Minister Marshall:

As the Chair of the Committee responsible for the Government Money Purchase Pension Plan (GMPP), I hereby submit the 2011 Annual Report for the Committee. The report was prepared under the committee's direction and the committee is accountable for the results contained herein.

The GMPP Committee's mandate is to administer the GMPP, including the setting of investment policy, the recommendation for appointment of an administrator/custodian and the monitoring of plan performance.

The GMPP is a capital accumulation plan, that is, the level of benefits provided at retirement are dependent on the contributions and the income earned on those contributions during an employees career. It is critical that participating employees become actively engaged in the management of their respective plan assets in order to ensure security in retirement and is the key strategic issue for the GMPP Committee. Plan members have been reluctant to make any investment choice, and instead are allowing their funds to be directed to the low risk, low return default investment. Employees should be aware of both the potential risks and rewards of making an active decision and the possible impact of their return goals.

This annual report outlines the activities of the GMPP Committee and the growth in assets and membership during 2011.

I am pleased to submit the 2011 Annual Activity report for your consideration.

Yours sincerely,

Glenn Grandy
Chair of the GMPP Committee

OVERVIEW

The Government Money Purchase Plan (GMPP) Committee was established by the Lieutenant-Governor in Council to oversee the operations of the GMPP. Employer representatives are appointed by virtue of their positions in government, while employee representatives are appointed based on the recommendation of the various unions. Committee members are responsible to ensure that contributions accumulated to the credit of the employee are invested prudently in the investment classes prescribed by the Committee and to promote the plan and educate employees on the importance of taking an active interest in their investments.

Government Money Purchase Pension Plan Committee Members
(As of December 31, 2011)

Government and Employer Representatives:

Glenn Grandy, Chair	Assistant Deputy Minister, Financial Planning and Benefit Administration, Department of Finance
Maureen McCarthy	Director, Pension Administration, Department of Finance
William Noftall	Manager, Pension Benefits, Department of Finance
Brian Shortall	Executive Director, Newfoundland and Labrador School Board Association
Rick Hindy	Manager of Budgeting, Eastern Health Authority
Marie Wells	Director, Human Resources, Policy and Planning, Public Service Secretariat
Michael Rickert, Secretary	Departmental Program Coordinator, Department of Finance

Employee Representatives:

Bert Blundon	Newfoundland and Labrador Association of Public and Private Employees
Steve Brooks	Newfoundland and Labrador Teachers' Association
Sharon King	Association of Allied Health Professionals
Dawn Learning	National Representative, Canadian Union of Public Employees
Eileen Humphries	Newfoundland and Labrador Nurses' Union

The retirement security of a GMPP member depends on the member's investment decision, which in turn depends on the member's investment profile and risk tolerance. Consequently, it is critical that members take an active interest in their portfolios. To facilitate prudent investment decisions by members, the Committee has established and implemented a Statement of Investment Policies and Procedures which specifies the investment options to be provided to members. These options include Guaranteed Investment Accounts (GIAs) and market based funds, including an equity fund, a bond fund, a global equity fund and a balanced fund.

To assist in fulfilling its mandate to educate plan members, the Committee has retained the services of Great West Life Assurance Company (GWL) who fulfills the roles of both the custodian and administrator of the GMPP. The Committee also retains an investment consultant, Russell Investments to assist in the design, implementation, and ongoing evaluation of all aspects of the pension investment program.

Phillips, Hager & North Investment Management Limited (PH&N) has been retained to manage all market based investment products and Morneau Shepell, on an as needed basis, provides advice on various pension issues relating to compliance with pension legislation and the *Income Tax Act*.

MANDATE

The GMPP Committee's mandate is to administer the GMPP, including the setting of investment policy, the recommendation for appointment of an administrator/custodian and the monitoring of plan performance.

LINES OF BUSINESS

Prudent management of the GMPP, including:

1. The development, implementation and review of investment alternatives to provide plan members with the ability to make an active investment decision with respect to their accumulated funds.
2. Promotion of the plan and education of plan members on the importance of taking an active interest in their investments.
3. Oversight to ensure that contributions accumulated to the credit of plan members are invested prudently in the investment classes prescribed by the Committee.

VALUES

Self Determination: All plan members have a right to make or not to make an active investment decision with respect to their accumulated funds.

Respect: Each member of the GMPP Committee respects the rights of plan members to make or not to make an active investment decision with respect to their accumulated funds.

PRIMARY CLIENTS AND STAKEHOLDERS

The primary clients for the GMPP Committee are the employees who participate in the plan.

The stakeholders for the GMPP Committee are the Minister of Finance as Trustee, 58 participating employers and the Unions which represent participating employees.

VISION

The vision of the GMPP Committee is to have all participating employees select an investment strategy suited to their retirement objectives with the ultimate goal to maximize the amount of pension funds available at retirement.

MISSION

Consistent with its vision that all employees will take an active interest in their retirement objectives, the Committee's mission is to enhance plan administration and continue to encourage employee participation in the investment selection process. Currently, less than 50 per cent of members make an active investment decision with respect to the funds they are contributing to the GMPP.

By 2016, the Government Money Purchase Pension Plan Committee will have built on the success of the GMPP by improving administration for the benefit of all plan members and engaging more stakeholders in decision making.

Measure: Enhanced administration
Indicators: Reduced turnaround time for plan to plan transfers

Measure: Plan member engagement
Indicator:
- Increased number of plan members taking active interest in their investments
- Increased attendance at information sessions

KEY STATISTICS

Administration Costs - December 31

	2011	***2010***
Investment Management Costs (PH&N)	$ 290,006	$ 267,804
Russell Investments	14,000	14,000
Annual Pension Plan Registration	7,500	7,500
Support Staff	44,011	42,322
Total Administration Costs	$ 355,517	$ 331,626

Since the inception of the GMPP in 1989, actuarial consulting and support staff costs have been paid from employer contributions that are forfeited when members who are not vested terminate from the plan and take a refund of their contributions. The balance in the

forfeitures account was $2,371,142 as of December 31, 2011 as compared with $1,930,781 as of December 31, 2010.

Investment management fees for Philips Hager & North, which are based on a percentage of the total plan assets which they manage, are paid directly by the plan member from investment earnings.

Membership Status

Plan membership has increased from 30,608 accounts in 2010 to 31,234 accounts in 2011. The number of accounts includes both active participants and terminated employees who have left their funds on deposit with GWL. Of the total number of accounts, 12,973 are members who contributed during 2011. Commencing in 2004, efforts were made to contact many of the account holders to advise them of their transfer options should they wish to move their funds from the plan. The following table details the change in membership from 2010 to 2011.

	2011	2010
Membership, January 1	30,608	29,184
Additions		
Enrolments during the year	2,825	3,349
Less: Exits		
Terminations	2,057	1,777
Death Benefits	27	29
Retirements	115	119
	2,199	1,925
Membership, December 31	**31,234**	**30,608**

FINANCIAL HIGHLIGHTS

Market Value

Employee contributions for the year totalled $12.8 million of which $221,893 was Additional Voluntary Contributions (AVC's). Plan members may deposit AVC's to the plan, subject to RRSP limitations under the *Income Tax Act*. These AVC's are not matched by the employer. An additional $104,223 was transferred in to the GMPP from other pension plans. Employer contributions for the year totalled $12.5 million and investment income(loss) was $(4.1) million.

Statement of changes in Assets for the year ended December 31, 2011 is shown below:

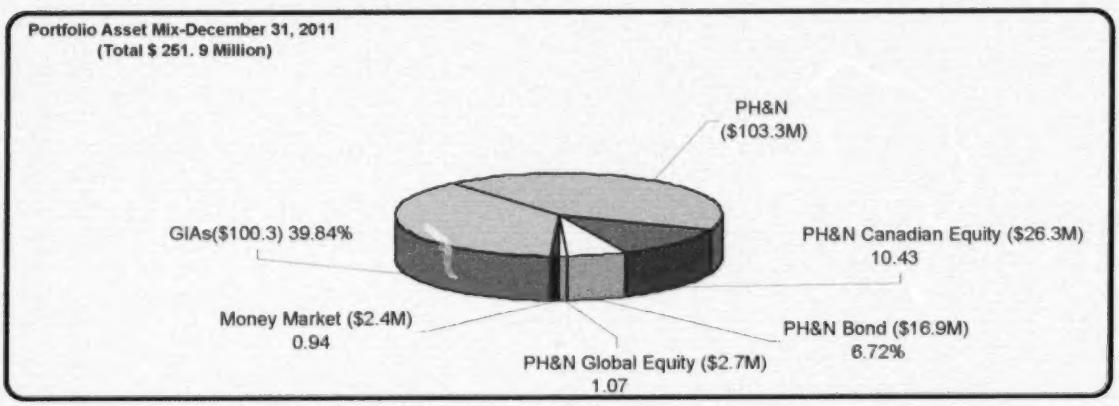
Statement of Changes in Assets for the Year Ended December 31

(Market Value)

	2011 ($Millions)	2010 ($Millions)
Opening Balance, January 1	**254.3**	**$231.2**
Contributions to the Plan	25.3	25.0
Investment Income	(4.1)	15.0
Total Additions	**21.2**	**40.0**
Refunds to Terminating Plan Members	23.2	16.6
Administration Costs	0.4	0.3
Total Deductions	**23.6**	**16.9**
Net change in assets	(2.4)	23.1
Market Value, December 31	$ 251.9	$ 254.3

Portfolio Asset Mix

Based on the asset decisions of plan members and the direction of the employer's share to the balanced fund, the asset mix of the portfolio as of December 31, 2011 is illustrated in the following chart:



Investment Performance as of December 31, 2011

The following table details the performance of the GMPP market based funds to December 31, 2011:

Government Money Purchase Pension Plan (GMPP)
Summary of Investment Returns as at December 31, 2011
with Benchmark comparisons

Investment Options	Three Months %	One Year %	Four Years Annualized % p.a.	Ten Years Annualized % p.a.
Balanced Pension Trust	3.4	-2.6	1.5	4.4
Benchmark*	3.2	-0.4	1.5	4.8
Canadian Equity Fund	5.0	-10.1	-2.3	6.1
S&P/TSX Composite Index	3.6	-8.7	-0.7	7.0
Bond Fund	2.2	9.0	7.6	6.9
Dex Universe Bond Index	2.1	9.7	7.0	6.5
Global Equity Fund	4.0	-8.5	-4.1	-2.8
MSCI World ex Canada Index	4.7	-3.1	-4.5	-1.1

* Current benchmark composition: 35% S&P/TSX Capped Composite Index, 25% MSCI World ex Canada Index, 35% Dex Universe Bond Index, 5% Dex 30-Day T-Bill Index.
Note: All performance data is shown on a gross or pre-fee basis.

Asset Mix and Fund Performance information was extracted from the December 31, 2011 PH&N Fund Management Report

ACTIVITIES

Issue 1: Improved Governance

The current Committee membership structure was implemented in 1997 with a view to ensuring that all plan stakeholders were represented. Broad membership representation along with pension standards legislation and industry best practices have supported the governance practices of the Committee. GWL in its role as plan administrator has also assisted the Committee in fulfilling its role. However the Committee recognizes the need to review current processes to ensure that it is fulfilling its fiduciary obligations to plan members. To this end, a review of current governance practices was planned for 2011 but due to changes to the Committee membership and shifting priorities within the Pensions Division, the review has not commenced. A consultant has now been identified and the review is targeted to commence by late 2012.

With the appointment of a consultant, it is anticipated that the review and recommendations will be completed by November 30, 2012.

Objective 1:

By December 31, 2011, the GMPP Committee will have reviewed its governance practices.

Measure: Review of current governance practices completed
Indicator: Report on current governance practices completed

2011 Results:
The process was delayed due to changes to the Committee membership and shifting priorities within the Pensions Division. However, a consultant to lead the review of governance practices has now been identified with the review anticipated to commence in mid 2012.

Issue 2: Education and Promotion

The GMPP is a capital accumulation plan where employee contributions together with the employer match are deposited to individual accounts. The employee has the option to allocate those contributions to a variety of investment vehicles, with the ultimate accumulation at retirement dependent on the investment selection of the employee. Employees are provided with the tools to assist them with their asset allocation decision, but many choose not to avail of those tools. The Committee has endeavoured to engage employees in the process by promoting the plan and offering annual educational sessions across the province, but with limited success.

Objective 1:

By December 31, 2011, the Committee will have developed an education and promotion plan to facilitate the decision-making needs of specific plan member groups.

Measure: An educational and promotion plan is developed

Indicator:
- Identify characteristics and needs of specific plan member groups
- Recommend new approaches and enhanced tools to facilitate decision making

2011 Results:
The development of a formal education and promotion plan was delayed due to changes to the committee membership and shifting priorities within the Pensions Division. However, in 2011 the Committee approved a number of education and promotion initiatives to commence in 2012 including:

- On a trial basis, 2 online education sessions were approved to commence monthly starting in February 2012. There will be a follow-up evaluation after 6 months.

- A new GMPP Member Enrolment Video will be developed and made available to plan members in 2012.

- As the employer is the primary internal resource for plan members and should be able to respond to employees' queries about the GMPP, an employer training session in St. John's is planned for late 2012. There will be no cost to the employer as the cost will be recovered from the forfeiture account. Officials of GWL will facilitate and present information to employers that will enable them to assist employees.

- Recognizing that plan members have different career objectives that may influence their investment choice, a survey of plan members will be carried out in 2012 to determine the level of interest in other types of investment choices such as Target Date Funds.

THE YEAR AHEAD

Issue 1: Improved Governance

The Committee will continue with the implementation of the recommendations from the governance review which will include the development of an education plan for Committee members.

Objective 2:
By December 31, 2012, the GMPP Committee will have developed and implemented improved Governance practices and a Governance Education Plan for existing and new Committee members.

Measure: Improvements to governance practices and Committee education developed.

Indicator:
- Review of current governance practices completed
- Governance education plan implemented
- Implementation of recommendations of review, where appropriate

Issue 2: Education and Promotion

The primary focus for 2012 will continue to be plan member communication and education. As evidenced by the continued high percentage of investments in the Balanced Funds and Guaranteed Investment Accounts (GIAs), many plan members are reluctant to make active investment decisions with respect to their accumulated funds.

In order to encourage plan members to take a more active interest in the GMPP, officials of the Department of Finance and Great West Life will continue to offer seminars to all plan

members that will focus on educating members on the importance of investment selection. These sessions will be scheduled for the Fall of 2012 and the opportunity will again be extended to employers to host the sessions on site at locations most beneficial to plan members.

Objective 2:
By December 31, 2012, the GMPP Committee will have begun implementation of select components of the education and promotion plan and increased availability of educational opportunities.

Measure: Select components of the education and promotion identified for implementation

Indicator:

- Implemented 2 online education sessions
- Completed evaluation of online education sessions
- Delivered a new GMPP member Enrolment Video
- Delivered an employer training session in St. John's
- Administered a survey of plan members to determine the level of interest in other types of investment choices

CONTACT INFORMATION

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3. Phillips Hager & North Investment Counsel
   Suite 2320, Box 207
   1 Adelaide Street East
   Toronto, On M5C 2V9

   Telephone: 1-(800)-661-6141
   Website: www.phn.com